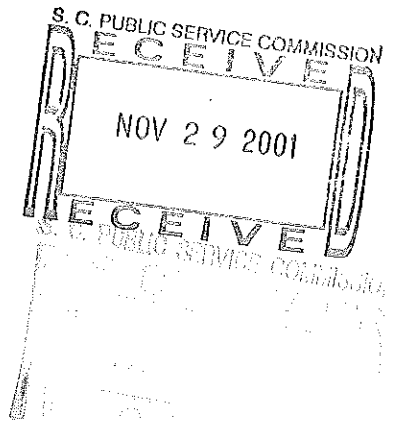


POSTED
NOV 30 01

Surrebuttal Testimony Of Peter J. LanzaIotta
On Behalf Of
The Consumer Advocate For The State of South Carolina
Docket No. 2001-420-E



Q. Have you previously presented direct testimony in this proceeding?

A. Yes, I have.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of SCE&G witnesses Lynch and Cunningham.

Q. SCE&G witness Lynch refers to SCE&G's previous Request For Proposals ("RFP"), which was issued in conjunction with the repowering of the Urquhart power plant, as one instance where SCE&G determined that purchased power was more expensive than SCE&G's repowering one of its existing generation units. (Lynch Rebuttal, Page 5.) Does this prove that it is less expensive for SCE&G to build the Jasper County facilities than it is to purchase power?

A. No, it does not. This is true for several reasons. First, and most importantly, the market place has changed considerably since the Urquhart-related RFP, which was issued several years ago. There have been a number of merchant generation projects proposed for South Carolina and its neighboring states since the Urquhart-related RFP. This increases the pool of potential bidders that could compete to supply SCE&G's capacity needs. Secondly, the regional economy has since shown signs of slowing, thus increasing pressure on potential merchant projects to compete for available loads. If electric peak load growth slows in response to slowing economic growth, as is reasonable to expect, potential merchant plants will see a shrinking market for their capacity, thus forcing them to bid more aggressively than was previously the case. This combination of today's increased supply and decreasing

RETURN DATE: OK DW
SERVICE: OK DW

demand growth makes it inappropriate to evaluate today's potential purchased power prices based on bids supplied several years ago, as SCE&G seems to be doing.

Because SCE&G did not solicit proposals from third-party suppliers as an alternative to self-owning the proposed Jasper County facilities, SCE&G does not know how much less expensive power from a third-party supplier might be as compared to the proposed Jasper County facilities.

Q. SCE&G witness Lynch states that self-owned generation will be more reliable than purchased power because SCE&G will assure that their self-owned generation will be well maintained, and that maintenance and outages will be scheduled in conjunction with SCE&G's entire system. (Lynch Rebuttal, Page 2.) Please comment.

A. I know of no studies that have concluded that merchant generation plants are not well maintained or that their operating availability is any worse than that of generation directly owned by electric utilities. SCE&G has provided no such data. In addition, if SCE&G were to purchase capacity from a merchant plant, there is no reason that I know of why the scheduling of maintenance for that plant could not be coordinated with SCE&G system as a condition of the purchase.

Q. SCE&G witness Lynch reiterates SCE&G's position that purchased power contracts include risks that the self-own option does not. (Lynch Rebuttal, Page 2.) Do you have any comment?

A. Yes. The self-build option proposed by SCE&G for the Jasper County facilities includes risks that would not be present if SCE&G were to purchase from a merchant plant or from other sources. First, the cost of a power purchase is stated in the power purchase agreement. The cost of SCE&G's proposed Jasper County facilities is still

subject to uncertainty. I note that SCE&G has informed the financial community that it expects to seek an increase in retail rates due, in part, to the cost of the proposed Jasper facilities. It is not clear that a similar increase would be needed if SCE&G were to purchase power rather than build the Jasper County facilities because SCE&G has not priced out what power purchases would cost in today's power markets. Second, power purchase agreements typically have performance requirements that mean that the purchaser does not have to pay for non-performing generating units. For an SCE&G-owned generation unit, such as the proposed Jasper County facilities, SCE&G retail ratepayers will have to pay for the facilities regardless of how poorly such generation may perform. I note that SCE&G has experienced extended outages of major self-owned generating units over the past several years that required SCE&G to incur significant replacement power costs.

- Q. Mr. Lynch states that the cost of building new generation is the same regardless of who builds the plant. (Lynch Rebuttal, Page 5.) Do you agree?
- A. My Lynch provides no basis for this statement. My experience has been that utilities with captive retail ratepayers, which are subject to cost-based rates, do not have the same motivation to control costs that parties that build generation that will have to compete for loads on the basis of price will have. Furthermore, utilities typically are subject to different financing structures than merchant developers, which frequently have far higher debt-to-equity ratios. Because debt usually costs less than equity, this means that a merchant plant can cost less than a plant owned by a utility such as SCE&G.
- Q. Mr. Lynch discusses several examples of purchased power supply defaults. (Lynch Rebuttal, Pages 2-3.) Please comment.

A. Both of these instances involved suppliers that had gone "short" against the market, relative to their power supply commitments. In other words, both of these defaulting suppliers had agreed to sell power that they didn't currently own and which they hoped to be able to procure on a short-term or spot basis. Neither of these suppliers had generation assets sufficient to supply their commitments to provide power and neither of these suppliers had properly hedged their supply requirements. Frankly, under these conditions, it was not prudent for purchasers of power from these entities to rely on these purchases as being firm without insisting that either real generation assets or supply hedges be present to back up these sales. I am not advocating consideration of such a purchase by SCE&G. However, it is possible to buy power from a supplier that does have generation assets sufficient to supply their commitments and to make the presence of such assets a condition of the purchase. When these prudent conditions are present, defaults of the type referenced by Mr. Lynch are extremely rare.

Q. SCE&G witness Cunningham testifies that SCE&G's gas supply arrangements proposed for the Jasper County facilities will be more flexible than the typical gas supply arrangements for the typical merchant plant. (Cunningham Rebuttal, Page 1.) Do you have any comment?

A. If SCE&G were to consider purchasing power from a merchant plant, there is no physical reason that such purchase could not be conditioned on the merchant plant having gas transportation and supply arrangements that are just as flexible as what SCE&G plans to provide to its own proposed generation. Until SCE&G actually seeks current proposals from merchant plant developers or other suppliers, it is merely speculation⁴ that such suppliers are not willing or able to offer flexibility that is comparable to what it would realize from a self-owned generation facility.

Q. Does this conclude your rebuttal testimony?

A. Yes, at this time.